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**FISCAL IMPACT STATEMENT**

**LS 6204**

**BILL NUMBER:** HB 1127

**NOTE PREPARED:** Feb 2, 2010

**BILL AMENDED:**

**SUBJECT:** 1977 Fund Purchase of Service Credit.

**FIRST AUTHOR:** Rep. Goodin

**FIRST SPONSOR:** Sen. Kruse

**BILL STATUS:** As Passed House

**FUNDS AFFECTED:**     **GENERAL**  
                          **DEDICATED**  
                          **FEDERAL**

**IMPACT:** Local

**Summary of Legislation:** This bill allows a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) to purchase at full actuarial cost prior service in certain public retirement funds.

**Effective Date:** July 1, 2010.

**Explanation of State Expenditures:**

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** *Purchase of Service Credit:* This provision can result in increased future payouts from the 1977 Fund in certain situations, as described below:

The bill provides that the purchase of service credits by a participant in the 1977 Fund must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a contribution for the service credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of the 1977 Fund may wish to purchase service credit and the potential impact to the funds are identified below.

(A) If a member wants to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current 1977 Fund service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-

living adjustments (COLAs) that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the 1977 Fund. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the 1977 Fund.

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary **at the time of purchase** before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

The fund member's employer may pay all or part of the fund member's contributions required for the purchase of service.

*Background Information:* Cities and towns with members in the 1977 Police Officers' and Firefighters' Pension and Disability Fund appropriate money from police and fire pension funds. The sources of these funds are property taxes, Motor Vehicle Excise Taxes, and Financial Institutions Taxes. The 1977 Police Officers' and Firefighters' Pension and Disability Fund is funded by a 19.5% contribution rate of payroll by the participating cities and towns.

**Explanation of Local Revenues:**

**State Agencies Affected:** PERF as administrators of the 1977 Fund

**Local Agencies Affected:** Those units with members in 1977 Fund

**Information Sources:** Doug Todd of McCready & Keene, actuary for PERF and the 1977 Fund 317-576-1508.

**Fiscal Analyst:** James Sperlik, 317-232-9866.

**DEFINITIONS**

Actuarial Cost - A cost is characterized as actuarial if it derived through the use of present values. An actuarial cost is often used to associate the costs of benefits under a retirement system with the approximate time the benefits are earned.

Actuarial Present Value - The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

Contribution - The transfer of funds or property by either an employer or an employee to an employee benefit plan.